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World Financial Markets

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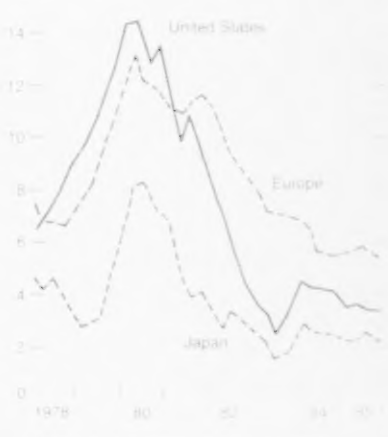
Chart 1

Consumer prices

percent change over previous year



Countering world deflation

Five years ago, price disinflation, let alone outright "deflation," had virtually vanished from the lexicon of economists and policymakers. Today, following the remarkable and still-continuing decline of inflation in industrial countries (see Chart 1), those seemingly archaic terms are taking on new life. Lenders and borrowers — farmers, commodity producers, manufacturers, and sovereign governments — are seeking to fathom whether present experience is a mere interlude preceding the return of 1970s' style inflation or the beginning of a new era of low inflation.

Although the verdict can hardly be definitive at this stage, the odds increasingly favor the low inflation view. First, the taut monetary policies that are manifest in high real interest rates, together with the fiscal rigor still being practiced by a number of the major countries, have caused economic growth to average well below potential since the second oil shock. Sizable "output gaps" have opened up. They will not be closed — indeed, they may not even shrink — during the next several years if policymakers persist with their present objectives for moderate growth. The inflationary pressures of excess demand impinging on limited capacity are simply not a reality today in most sectors of the world economy.

Second, there is widespread excess capacity in primary commodities — oil, metals, or food and other agricultural products. Significant real increases in commodity prices will not occur without profound supply shocks or stronger and more sustained world economic expansion than present policies are likely to permit. Should the dollar decline sharply further, commodity prices would likely rise somewhat in nominal dollar terms, while falling in terms of other currencies. On balance, however, that would not be inflationary for the world at large.

Third, cost-push forces for inflation seem to be in abeyance. There are signs of structural moderation in wage dynamics, notably in the United States. In Europe, wage moderation is being enforced primarily by record high unemployment. In Japan, the unique labor compensation system continues to militate against inflationary wage behavior. In addition, throughout the industrial world, but particularly in the United States, low-wage competition from the ever more sophisticated exports of newly industrializing countries (NICs) — as well as Japan itself —

Table 1

Dollar exchange rates

units per dollar, except as noted

	Nov 19, 1985	Percent change in dollar rate from: 1985 peak, Feb 25-26	Pre-G-5, Sep 20-22	1984 average
Nominal effective dollar	112.51	-18.6	-6.8	-4.6
Real effective dollar	111.3*	-18.2	-7.4	-6.7
Japanese yen	204.10	-35.1	-15.0	-14.1
German mark	2.61	-23.9	-8.1	-8.3
French franc	7.96	-21.5	-8.2	-8.9
British pound**	1.42	25.9	3.8	6.2
Italian lira	1562	-18.6	-7.8	-6.4
Canadian dollar**	0.720	-11.6	-2.0	-5.1

*1980-82=100
**U.S. dollars per unit

is helping to compel new realism in wage demands.

To be sure, inflation is never dead, but only dormant. In fact, it continues of real concern in Italy, where the actual rate only recently has come down and expectations remain fragile; in Britain, where wage behavior is famously obdurate; and in many developing countries where, too often, inflation remains the accepted way of life. There even are residual risks of inflation's revival in the United States: interpreting the money supply figures is no easy matter amid ongoing structural change in the financial system. However, contrary to the confident assertions of some monetarists about the inflationary implications of fast M1 growth, the link between inflation and money supply is by no means automatic; neither is the link with the exchange rate. Besides, although the dollar has come down a trade-weighted 17% from its peak last February, that peak was a short-lived surge; the dollar today remains far above its average level of the early 1980s (see Table 1).

More than inflation, the big worry today is that world economic growth in the years ahead will fail to match even this year's inadequate performance. Growth in the major industrial countries has fallen to about 2.7%, compared with 5% in 1984; several of Asia's erstwhile star performers are stumbling badly; and Latin America remains in considerable distress. Global growth prospects are little better for the years ahead, not least because the United States is moving toward contractionary budget policy, as a means not only to counter inflation but also to contain its external trade deficit and internal forces for trade protection. Averting the risks to world economic growth is the underlying objective of the twin initiatives launched this fall by U.S. Treasury Secretary Baker: activation of the G-5 forum of finance ministers and central bank governors of the leading industrial countries, with a view to securing a lower dollar and more expansionary policies in Japan and Europe; and the plan unveiled at the IMF-World Bank meetings in Seoul to encourage more growth-oriented structural policies in debt-troubled developing countries, with the support of a moderate step-up in financing by commercial banks and multilateral development banks. These initiatives are welcome and well timed. Their implementation, however, raises many questions and their ultimate success is by no means assured. Still, it is encouraging to see economic growth more prominently on the international policy agenda.

Table 2

Real GNP growth

average percent per annum

	1960-69	1970-79	1980-85
Seven industrial countries	5.7	3.6	2.2
United States	4.2	3.1	2.1
Japan	11.6	5.3	4.3
Germany	5.6	3.1	1.2
France	5.8	4.1	1.5
United Kingdom	2.7	2.4	1.1
Italy	6.3	3.3	1.4
Canada	5.2	4.5	1.8

The potential for faster economic growth

Since the second oil shock, real GNP growth in the industrial countries has averaged 2.2% per annum. During the 1970s it averaged 3.6%, and in the golden decade of the 1960s as much as 5.7% (see Table 2). The drastic slowdown in actual economic growth during the 1980s so far is often portrayed as a fundamental fact of life reflecting the maturation — or even senility — of

industrial societies, exhaustion of technological opportunities, and sclerosis of market mechanisms. This perception, which enjoys much popular and official currency in Europe — and, to a lesser extent, Japan — rejects the notion that governments can do much to accelerate economic growth, at least over the short term. Yet accelerated growth is the very essence of the Baker initiatives. However, there is another interpretation of the decline in actual economic growth, namely that for a variety of reasons industrial countries are performing below the level of output potentially producible from existing endowments of labor, capital, natural resources, and technology. Thus, they are suffering "output gaps" that may be both large and susceptible to policy influence.

To appraise the size of these gaps, and whether they are narrowing or widening, it is necessary to estimate potential output. Its growth may be defined as the sum of the underlying growth trend in labor productivity and that of labor input. The latter reflects trends in working hours, labor force participation, and the population of working age. The more lasting of these components suggests that potential growth must have exceeded the actual growth of output these past five years. Still, although demography provides fairly solid measures of the working age population, other components in the potential growth calculation are hard to pin down. Few countries collect comprehensive data on working hours; female and older worker participation in the labor force is influenced by economic and social factors that are imperfectly understood; and productivity projections are sensitive to assumptions about human and physical capital investment, as well as depreciation.

Accepting the difficulties, two approaches are in general use for estimation of potential output. The first assumes that potential grows at the observed rate of GNP growth from one peak of the business cycle to the next; for projection purposes, the most recent peak-to-peak measure is carried forward, perhaps with some judgmental adjustment. The second, more sophisticated, approach assesses the growth in both the quantity and quality of the economy's productive factors, such as labor and capital. Some observers, especially in Europe, reject the second approach not only for its greater complexity but also because it yields generally higher estimates of potential growth. They contend it ignores both the "rusting away" of part of the capital stock during the present extended period of underutilization and the long-term shift of competitive supply capability for many manufactures toward the NICs. However, the rust factor, while real, probably is not of overwhelming significance. Neither the structural decline of some older sectors nor the general increase in import penetration has prevented overall U.S. manufacturing output from rising 13% above its 1979 level — hardly a spectacular increase but far better than Europe's experience. Besides, the peak-to-peak gauge of potential output has its own weaknesses. The low estimates it provides for the 1980s derive from the slowdown of actual growth in the 1970s, a period of major supply shock and rampant inflation quite different from today's conditions. Moreover, failure to recognize the role of depressed demand these past five years renders many judgmentally adjusted estimates of potential growth unduly pessimistic.

By every estimate enormous output gaps prevail today in the major industrial countries (see Table 3). The gaps have jumped from very low levels in 1979 to levels that, outside North America, remain striking-

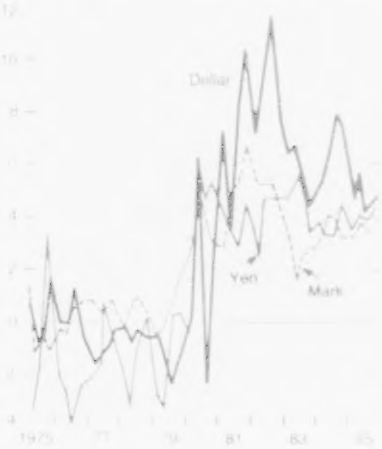
Table 3

Output gaps: alternative estimates

	Potential output, annual average percent growth, 1967-84*	Output gap, percent**		
		1979	1982	1985
United States				
Canada				
Germany				
France				
United Kingdom				
Italy				
Canada				

Real interest rates

3-month Eurocurrency deposit rates deflated by consumer prices in percent*



*The inflation assumption uses centered 12-month rates of change in consumer prices, including projections for 1985 where necessary.

ly high in relation to earlier postwar experience, despite the economic recovery. The estimates range from lows of about 5% of GNP in North America to over 13% in France and Germany. Only in the United States, Canada, and the United Kingdom have output gaps decreased unambiguously since 1982. By contrast, no matter which estimates of potential growth are used, output gaps in Germany, France, and Italy have widened since 1982, underlining the feeble nature of Europe's recovery. In Japan it is unclear whether the output gap has grown or declined since actual economic growth has run between the estimates of potential. Nonetheless, in all the major industrial countries, output gaps are well above their levels of the 1970s.

Macroeconomic restraint

The persistence of low or declining inflation well into the expansionary phase of the business cycle has been quite a surprise, especially in the United States, where the upswing has been much in line with previous cyclical experience. The continuing prevalence of excess capacity in the world economy provides the clearest explanation. Just as the inflationary surges of 1973 and 1979 were in large part triggered by simultaneous demand pressures in each of the major industrial economies, the current disinflation is abetted by restrictive demand policies. In most major industrial countries both fiscal and monetary policies have been harnessed to the overriding aim of reducing inflation. Of course, U.S. strategy for noninflationary growth has taken a different tack, insofar as its expansionary fiscal stance has required that monetary policy spearhead the anti-inflationary fight.

Both in the United States and elsewhere, growth rates in monetary aggregates have generally decelerated in the early 1980s, although in some cases financial deregulation and velocity shifts have obscured the underlying trends. The tightening of monetary policy stands out most clearly from the sharp rise in real interest rates (see Chart 2). The rise is commonly blamed on the quantum jump in the U.S. fiscal deficit. However, this is not a convincing or complete explanation. The underlying fiscal posture of industrial countries, taken as a group, has changed very little since 1979. Given the prevailing freedom of international capital movements, this implies no measurable fiscal pressure for the rise in real interest rates. Instead, the rise must be attributed in large measure to restrictive monetary policies — especially during 1981-82, and again for much of last year in the United States and Europe. Real rates have since come down significantly but remain uncomfortably high, in part because of unsettled inflation expectations.

On the fiscal side, the persistence of deficits, as conventionally measured, is still construed too automatically as lax and imprudent. However, fiscal policy is better assessed using "structural" balances, cyclically adjusted figures that estimate the budget outcome of prevailing spending and tax rules as if the economy were operating at its full potential output. Since 1981 the shift toward deficit in the U.S. general government structural balance has been the largest in U.S. peacetime experience. But opposite movements toward surplus by most of the other G-5 industrial countries have, in aggregate, almost precisely offset the U.S. swing (see Table 4). According to the higher estimates of growth potential, Germany, France, and the United Kingdom now are each in substantial structural surplus, exceeding 3% of GNP; Japan's

Table 4

Structural budget balances: alternative estimates*

percent of potential output, derived from the alternative potential growth estimates shown in Table 3

	1984	1985	Change from 1979 to 1985**
United States	1.4	1.0	—2.1
	(-2.2)	(-2.6)	(-5.8)
Japan	-2.7	-2.2	3.2
	(-4.4)	(-4.0)	(-2.5)
Germany	-0.7	-0.4	3.3
	(-2.8)	(-2.5)	(-3.1)
France	-2.3	-2.3	2.2
	(-3.7)	(-3.8)	(-2.2)
United Kingdom	0.4	0.4	4.4
	(-0.4)	(-0.4)	(-0.1)
Italy	-7.2	-7.2	1.8
	(-8.2)	(-8.2)	(-1.1)
Canada	-3.5	-3.5	3.6
	(-4.5)	(-4.5)	(-0.6)

*Deficit or surplus of federal, state and local governments, and social security funds, as a percent of potential GNP. Potential GNP is estimated by applying the unemployment rate that would prevail if the economy were operating at a high level of resource utilization.

**Adjusted for cyclical factors, but not for changes in fiscal policy.

General government net debt

percent of GNP

surplus is about half that size; Canada is barely in the black; Italy remains deeply in the red. On the lower estimates of potential, only Germany and the United Kingdom are in surplus. However, the *change* in the structural balance is more important than the *level* in describing the impact of fiscal policy; in Japan, Germany, and the United Kingdom, the swings toward surplus have been unprecedented by postwar standards.

Fiscal tightening has had several motivations besides helping to discipline inflation. Since 1980 governments have been attempting to lower high ratios of public spending to GNP, or at least to contain their expansion. It is argued, particularly in Europe, that reductions in public spending will increase confidence, reduce interest rates — especially insofar as deficits decline — and stimulate private domestic demand. In Japan, the authorities are less concerned about the overall spending at present than with the large increases in social security transfers anticipated during the next 15 to 25 years; they are therefore reducing deficits to make room for budgetary pressure expected in the future. Few governments have had much success in actually cutting overall spending. Spending restraint, where achieved, has benefited by appeal to the simplest principle of prudent housekeeping, that deficits are evil per se. In many countries, this deficit nostrum has come, in practice, to supersede the original spending cuts objective, resulting in increased tax burdens that debilitate the private sector.

Officials also are concerned with potential deficit financing problems. Their *actual* budget positions remain in deficit, whatever the *structural* positions; moreover, public debt has risen in relation to GNP (see Chart 3). Many governments take the view that increases in debt interest payments as a proportion of GNP have to be covered by reductions in non-interest expenditures. The preference of Europe and Japan for continued fiscal restraint reflects attitudes about sustainable debt positions and the rate at which such positions must be restored. What may constitute an optimum debt ratio from an economic perspective is far from clear. Still, outside the United States, governments uniformly regard the present ratios as too high. For example, although the current Japanese and German ratios are not high by international comparison, they arouse anxiety because they are roughly 30 percentage points above their net creditor positions of the early 1970s.

Current macropolicy and growth trends

Notwithstanding sizable output gaps and, outside the United States, the already large swings toward structural budget surpluses, governments in general — with Britain the sole likely exception — are in no mood to ease up significantly on taut fiscal policies.

Moreover, it now appears that the United States will climb on the bandwagon of fiscal restraint. Opinion has snowballed this year that the federal deficit is too large, thanks in part to its perceived connection with the U.S. trade deficit. Last summer's Concurrent Budget Resolution, according to the Congressional Budget Office assessment, will shrink the federal deficit from 5.6% of GNP this past fiscal year to 3% in FY 1988. The pitfalls of the appropriations process suggest that achievement will fall short of intention. Thus, the reduction in the U.S. structural deficit on a general government basis may run considerably less than 2% of GNP over a three-year period. The impasse concerning the Gramm-Rudman Senate amendment

Table 5

Real GNP growth

percent per annum

	1984	1985	1986
Industrial countries	4.3	2.7	2.9
United States	6.8	3.4	2.8
Japan	5.8	4.0	3.5
Germany	2.8	2.0	2.7
France	1.9	1.3	2.0
United Kingdom	2.5	3.0	2.5
Italy	2.8	2.3	2.5
Canada	4.5	3.8	3.5
Developing countries	4.8	3.8	3.2
Latin America	3.4	2.8	3.4
Asia	6.0	5.8	4.0

further complicates the outlook.

Fiscal policies of other G-5 governments remain restrictive for the most part; their several motivations for restraint remain powerful. Japan retains its commitment to eliminate deficit financing, according to its particular definition of the deficit. In Germany a small tax cut is scheduled for 1986, but little more than is needed to offset just one year's fiscal drag. Despite widespread calls for the moving forward of a second tax cut presently slated for 1988, German officials so far are refusing to budge. Meanwhile, French austerity continues. Only Britain seems likely to take early advantage of the peculiarities of its accounting treatment of privatization sales of public sector assets to enable sizable tax cuts and effective relaxation of fiscal restraint.

As for monetary policy, the major central banks, having won significant — albeit costly — reductions in inflation, are reluctant to permit its reconsideration. This characterization may appear questionable in the case of the United States, in view of the pickup of M1 money growth. However, this appears principally related to the decline in M1's velocity of circulation, partly consequent upon the fall in interest rates; the broader aggregates have been showing relatively moderate growth. Waning U.S. inflationary expectations appear to be inducing a shift from physical to financial assets. In any event, throughout this period of declining inflation since 1980, growth in the U.S. narrow money stock has fluctuated both widely and erratically. Thus, the recent behavior of the monetary aggregates does not evidence basic relaxation of Federal Reserve policy.

Monetary policies elsewhere are unlikely to provide much stimulus soon. The September G-5 meeting left indications that interest rates in Japan and Europe would not be driven lower for fear of impeding or halting the decline of the dollar. In fact, Japan has pushed rates higher because the yen's appreciation to date is nowhere near sufficient to accomplish speedy correction of Japan's trade surplus. For the indefinite future, Japanese monetary policy is likely to remain constrained by large current account surpluses and continuing pressure from other governments for a stronger yen. In Germany, amid record unemployment, low inflation, and high real interest rates, the Bundesbank's willingness to reduce, and also hit, this year's monetary target, attests to its enduring commitment to price stability. Other members of the European Monetary System can be expected to parallel German monetary policy for exchange rate reasons, if with less fervor. Even Britain, where errant monetary aggregates now play little policy role, effectively takes its monetary cue from Germany, insofar as the sterling-mark relationship has become a principal focus of the U.K. authorities.

Altogether, given current and expected macroeconomic policies, real output growth in the major industrial economies may be no more than 2.9% on average in 1986, and quite possibly less. Thus, there would be scant improvement after this year's slowdown from the roughly 5% pace achieved in 1984 (see Table 5). The U.S. economy has picked up somewhat from the stagnation experienced during the first half of 1985. Still, it is hardly running at full throttle and, increasingly, will have to cope with some degree of fiscal restraint. This year's slowdown outside the United States, especially in Asia, has a number of causes, but has certainly been aggravated by the slackening growth in U.S. imports (see Table 6). Even if slightly faster U.S. GNP growth comes to pass in 1986, the dollar's depreciation during 1985 will cause

Table 6

U.S. imports

percent change from year earlier, in value terms

	1984	1985
Industrial countries	23.1	5.5
Japan	33.5	19.2
Germany	34.6	10.5
France	36.2	12.5
United Kingdom	19.6	14.0
Italy	30.3	13.4
Canada	27.2	3.2
Developing countries	11.4	3.1
Latin America	15.7	0.4
Asia	27.1	11.4

Table 7

Oil demand and supply

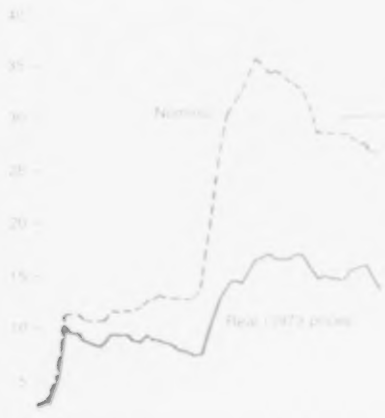
millions of barrels per day

Consumption				
Industrial countries	41.6	40.1	40.2	40.7
United States	15.7	15.2	15.3	15.7
Europe	13.8	13.3	13.5	13.4
Japan	4.4	4.4	4.4	4.4
Developing countries	11.6	11.6	11.6	11.8
Total	53.2	51.7	51.8	52.5
Supply				
Non-OPEC countries	21.4	20.8	20.9	20.9
United States	9.5	8.8	8.7	8.6
North Sea	3.6	3.5	3.6	3.6
Mexico	2.8	2.8	2.8	2.8
Other	5.5	5.7	5.8	5.9
Communist countries net exports to the West	1.1	1.1	1.1	1.1
OPEC production	17.3	15.8	15.8	16.5

Chart 3

Average world oil price

dollars per barrel



U.S. import growth to ebb further.

Partly as a result, growth is unlikely to pick up in Western Europe as a whole next year. Germany's industrial output weakened sharply this past summer. Some German officials continue to look for 1986 GNP growth of 4%. However, their optimism seems misplaced. With little reliance on questionable real wealth effects on consumption and an exaggerated view of the investment-boosting benefits of lower interest rates. As noted earlier, the 1986 tax cut will do little more than arrest the contractionary fiscal trend. Growth in France remains impaired by the fiscal posture. In Britain, the projected deceleration in economic activity reflects both the expiration of investment incentives and the absence of any further fillip from cost easing following the strike that ended last winter. However, privatization sales may permit a fiscal boost in next spring's budget. And in Japan, there is little sign of any significant change in domestic demand to replace the waning stimulus from exports.

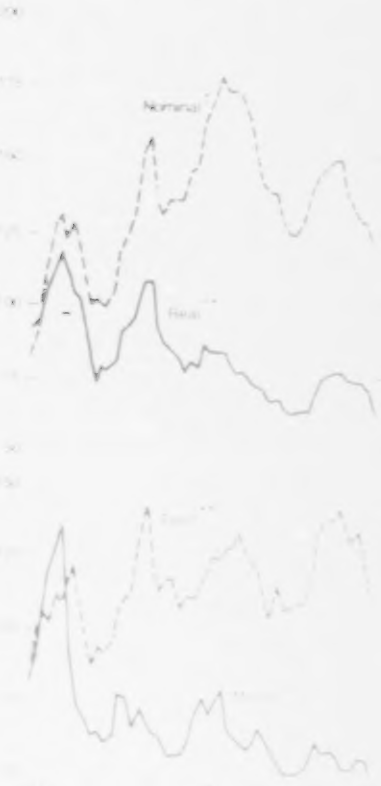
Some small pickup in industrial country growth is possible in the late 1980s in part associated with the U.S. election cycle. With the policy mystery over, the U.S. might easily accept the loss of a point or so of economic growth, hastening a recovery from the present sluggish performance. Given the likely world reaction to an easing of official pressure on the dollar, a relaxation of restrictive monetary policy might be one of the few economic policies to which the Administration could turn. Even so, the projected real GNP growth of 2½% for the 1987 fiscal year is not much to get excited about. Moreover, the risks are on the downside.

Depressed commodity markets

Profound changes in commodity markets, which did much to lower inflation in the early 1980s, are another important factor behind the low inflation outlook. The changes are most evident in the oil market. Despite the economic recovery, conservation and substitution fostered by the oil price increases of the 1970s are continuing to weaken world oil demand. Demand this year in industrial countries is off 2% from the 1984 level and is down almost 20% from the 1979 peak level (see Table 7). Developing countries' share of consumption once was destined to increase inexorably fast. Instead, there is minimal demand growth, particularly in Latin America. The 25% decline in the average dollar oil price since the 1981 peak does not change the picture fundamentally since oil prices still are high in historical terms relative to world manufactures prices (see Chart 4) and additional sources of oil supply have come on stream from non-OPEC producers. Excess capacity and financial pressures on budgets and payments balances are compelling forces for increased output not only from Nigeria and other heavily indebted producers but also from Saudi Arabia. Consequently, despite their recent firming, oil prices are likely to come under downward pressure for the next few years. The possibility of a sharp fall – even to the low $20s – cannot be dismissed.

Worries over commodity prices, especially by metals and fibers, have also been under discussion throughout the 1980s (see Chart 5), increasing most recently at the conference of the International Tin Council and the London Metal Exchange. As you like years fall in the price has brought no discernible response. For several reasons prices have been weak not just in

Non-oil commodity prices
1973 = 100



dollar terms, but in real terms, too. Between 1980 and 1984, industrial production — the most significant demand-side variable — rose only 1% in Europe, the key importer of many commodities; for all OECD countries the rise was 6%. This was perceptibly less than the modest 9% growth of OECD real GNP, reflecting the shift of output toward service industries that are low-intensity users of raw materials. Materials demand also has been depressed by declining infrastructure investment.

Commodity demand has been further dampened by the rise of substitutes encouraged, as with oil, by the price increases of the early 1970s. Plastics and optical fiber have been supplanting copper in pipe fabrication and telecommunications. Similarly, use of iron ore and tin has been cut back. Sufficient cost declines in metal prices should reverse the substitution trend eventually. However, low and long-standing price elasticities imply that a favorable trend in usage could yet be several years off. Even if this gets under way by the late 1980s, supply capacity will remain very significant.

ening previous discrimination against agriculture. Indeed, three of the five most populous nations — China, India, and Indonesia — have recently achieved food self-sufficiency. In the industrial countries, especially in Europe, income support through price-fixing and subsidy has resulted in pervasive and growing overproduction at crippling budgetary costs; fiscal pressures mean that, sooner or later, prices will have to be cut.

For the next several years, nominal commodity prices in dollar terms can be expected to benefit somewhat from dollar depreciation, if with some lag, provided depreciation is not associated with slowing economic growth worldwide, as has been the case this year. Prices in real terms, however, can be expected to advance little, if at all; sizable increases would require substantially faster global economic growth or a major supply shock.

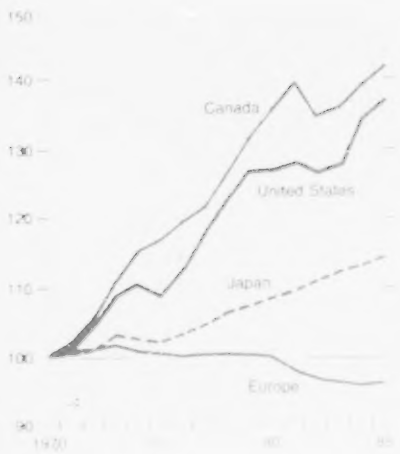
Labor cost containment

For both the United States and some European countries structural change in unit labor cost behavior (see Table 8) is widely cited as the most major factor behind the last few years' decline in inflation. Such change, if genuine, would provide considerable reason to expect continued low inflation in the future. Wage settlements have moderated under the influence of record high joblessness in Europe and, in the United States, an unemployment rate that remains high by earlier postwar standards. However, it is difficult to untangle how far their moderation marks a structural shift, rather than a cyclical downswing. While the slowing in U.S. unit labor costs has been achieved mainly through broadly wage moderation in both nominal and real terms — allowing strong continuing gains in

Chart 6

Industrial-country employment

1970 = 100



employment — in Europe unit cost containment has relied less on reduced wage gains than on labor shedding and elimination of unviable plant under the pressure of depressed demand.

Much of the difference stems from the greater competitiveness and flexibility of the U.S. labor market and its institutions. Since the end of the recession in 1982, nominal hourly wage gains in the U.S. private sector as a whole have averaged 3.7% per annum, compared with 7.4% over the inflationary decade of the 1970s. In contrast with previous experience, nominal wage gains have shown little, if any, tendency to accelerate during the course of the present cyclical recovery. Moreover, average real wage gains have been negligible in this recovery, maintaining their stagnation of the last ten or more years.

Increased foreign competition has been the key factor. This is not attributable solely to the higher dollar. The long-run shift of comparative advantage in manufacturing toward the NICs helped them penetrate the U.S. domestic market even before the dollar's rise. Although dollar appreciation helped these countries consolidate their presence in the U.S. market, not even a steep decline in the dollar would be likely to spur their total withdrawal. Besides, U.S. manufacturers are keenly aware of the cost savings obtainable through contracting for production in low-wage areas abroad. The second important structural force for U.S. wage moderation has been deregulation; for example, in the airline and trucking sectors, increased competition has stiffened employer resistance to higher wages. A third significant factor has been union recognition that the excessive wage increases negotiated in the 1970s rendered their members uncompetitive for the 1980s. Wage freezes or pay cuts have since grown mightily in importance; their direct effects have clipped at least 0.5% per annum from the overall U.S. inflation rate — even more when account is taken of their impact on other wage deals.*

Current trends in the nonwage aspects of union settlements, together with the decline of union membership, point toward enduring improvement in the behavior of unit labor costs: work rules impairing the competitiveness of unionized firms are being relaxed; the growing practice of profit sharing ties employee compensation more sensitively to company profitability; and union emphasis on job security helps workers identify their economic well-being more clearly with that of the firm. In sum, these nonwage trends are bringing some attractive features of the Japanese system to the U.S. workplace.

In Europe, the slowing of unit labor costs has come about more through the stepped-up productivity of workers retaining jobs than through lasting and radical moderation of their wage behavior. European labor markets remain riddled with inflexibilities. These explain at least a portion of the poor European employment record compared with that of North America and Japan (see Chart 6). The rigidities that took hold in the late 1960s have bloated not only real wages but also nonwage hiring costs. As the 1970s progressed, layoffs also became increasingly expensive — in some instances, with no relief provided even through bankruptcy. Such rigidities — along with innumerable regulatory follies, declining productivity growth, and increased mismatch of job requirements with worker skills — have greatly boosted Europe's "natural" rates of unemployment, the

*See Lawrence Ho and Robert S. Gay, "Union Settlements and Aggregate Wage Behavior in the 1980s," *Federal Reserve Bulletin*, December 1984.

Table 9

Natural rates of unemployment

percent of labor force

	1966-70	1981-84
Germany	1.2	5.5
France	2.2	6.9
United Kingdom	2.2	8.5
Italy	4.6	7.7

Source: Europe: The Case for Unequal Growth, R. Layard et al. Centre for European Policy Studies Discussion Paper No. 8, May 1984

rates consistent with stable inflation (see Table 9). Since the second oil shock, these natural rates may have begun to decline; rigidities in Europe have shown some tendency to ease, for example, through the reduction and limitation of some unemployment benefits. In any event, natural rates in the largest four EC economies are well below current unemployment rates (see Table 10) imparting downward pressure on nominal wages and inflation generally.

Nominal wages in Europe certainly have slowed as inflation has come down. Modest structural improvements have been achieved in wage indexation practices in most EC countries. In Italy, for example, union concessions have helped reduce the degree of wage indexation to less than 50%, compared with about 100% in 1976-77. In France, indexation now works less to provide wage compensation for past price increases than for the lower increases anticipated in the future. However, not until 1982 did real wages cease to rise in Europe's manufacturing sector — quite a contrast with the near stagnation of real wages in the United States these past ten years. In general, Europe does not display significantly greater wage moderation than its prevailing high unemployment would be expected to engender.

In Japan, wage gains also have decelerated, to an average 4.5% per annum these past five years in nominal terms, compared with 14% during the 1970s. Real wage gains in Japan have averaged 1.3% per annum since the second oil shock, considerably below the 5.7% pace of the 1970s and also below the 4.7% growth rate in productivity since 1980. Partly responsible has been a compensation system that emphasizes bonus payments tied to the performance of the firm. Less well known, outside Japan, is the fact that the fabled "lifetime" workers account for less than half the Japanese labor force: disguised unemployment, together with a large pool of temporary workers — often females passing in and out of the labor force without ever being recorded as unemployed — helps keep Japanese wage growth relatively low.

Quiescent wage behavior for some years to come, in combination with excess capacity, tight macroeconomic policies, and weak commodity prices, forms the basic case for the outlook for a low inflation world (see Table 11). Up to a point, the inflation outcome in individual countries, including the United States, will naturally depend on exchange market developments. However, for the major industrial economies as a whole, overall price inflation could well continue to recede.

Table 10

Actual rates of unemployment

percent of labor force

	Average 1975-...	Average 1981-...	1984
United States	5.9	7.1	7.5
Japan	2.1	2.3	2.7*
Germany	3.6	7.0	9.0
France	5.3	8.1	10.0
United Kingdom	4.9	10.3	12.4
Italy	7.5	8.3	10.1
Canada	7.4	7.9	11.2

*Dec. 1984

The twin Baker initiatives

The combination of forces pointing to low world inflation also points to low economic growth. That would mean scant progress for industrial countries in working down their unemployment rolls and still greater difficulty in resisting the destructive spread of protectionism in international trade. There would be little hope for heavily indebted developing countries to boost the per capita incomes of their people.

Policymakers should hardly stand idle before this troubling prospect. What is needed is a cautious swing away from the inflation-fighting preoccupations of the last several years — in favor of expansionary policies for the future. Admittedly, expansionary policies carry some inflationary risk. However, U.S. inflation forecasts based solely on fast money growth have been woefully in error since 1983 (see Chart 7). Financial innovation and falling in-

Table 11

Consumer prices

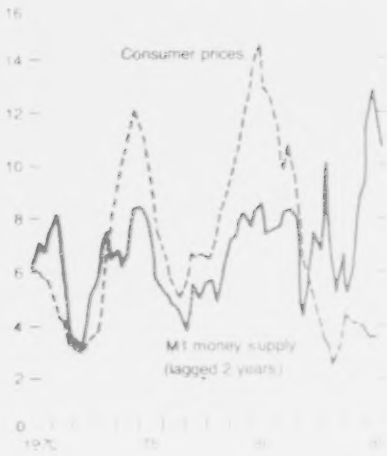
percent change, Q4/Q4

	1984	1985	1986
Seven industrial countries	4.1	3.8	3.4
United States	4.0	3.5	3.3
Japan	2.8	2.1	1.5
Germany	1.8	1.8	2.0
France	5.6	5.0	4.5
United Kingdom	4.6	5.5	4.4
Italy	9.4	8.5	8.5
Canada	3.8	3.8	3.5

Chart 7

U.S. consumer prices and money supply

percent change over previous year



terest rates appear to be playing havoc with velocity. While velocity may have stable determinants in monetarist thinking, the relationship is fickle in practice. Besides, if U.S. inflation were to pick up, and the hard-won gains on the price front begin to evaporate, the Federal Reserve could quickly correct course. Even were that to fail, higher U.S. inflation would be unlikely to spread to other countries in view of their excess capacity and tight policies, not to mention the depreciation of the dollar that probably would ensue.

Accepting the risks, U.S. Treasury Secretary Baker has launched two significant initiatives to bolster global economic growth. The first, impelled by broad domestic pressure to narrow the U.S. trade deficit and with a view to recovering Administration leadership on trade issues, opened with a session of the G-5 forum in New York. It concluded that exchange markets were failing to respond appropriately to shifts in economic fundamentals. Subsequently the major central banks, notably the Bank of Japan, have undertaken active and coordinated intervention. This has contributed significantly to the dollar's decline since the September meeting; it is down a full 15% against the yen — the prime Administration target — and over 6% against currencies of industrial countries on average. Most of the dollar's decline to date — and even some moderate further decline were this to occur — should be comfortably absorbed by shrinkage of the ample profit margins enjoyed by foreign exporters to the United States. To be sure, beyond some point those margins would be less able to take the strain. However, in contrast with the very different environment of the 1970s, the impact on the U.S. price level today would be attenuated by the still-substantial slack in U.S. and foreign markets, the moderation of U.S. wage behavior, and the structural weakness of commodity markets.

Apart from its exchange market impact, the G-5 communique represented only a token step forward. It counseled resistance to protectionism; and it reaffirmed faith in existing government policies and intentions, in line with the long-standing appeal for policy convergence. But the communique advanced no new proposals for substantive policy changes that would better the near-term economic outlook. Thus, the *convergence* approach still has not been superseded by the more urgent priority for macroeconomic *consistency*.

As U.S. budget deficit reduction proceeds, the most serious danger confronting the world economy today is that fiscal policies of the other G-5 members will remain unchanged or contractionary while monetary policies remain resolutely counterinflationary. That would be a sure formula for global recession. Unfortunately, governments in Japan and Europe remain adamantly opposed to expansionary fiscal policy. Notwithstanding the risk to their own economy's growth, the Japanese even appear willing to place upward pressure on the yen by tightening monetary policy, rather than compromise their existing fiscal commitments. In Europe, where political changes could well occur in several countries, it is by no means clear that significant movements in fiscal policy would result.

Thus, while the orderly decline of the dollar that followed the G-5 meeting is grounds for some satisfaction, this first Baker initiative requires follow-through to assure adequate economic growth. The time has come for Japan and Germany to reverse their fiscal course and, instead, aim for growth above their potential output trend for several years ahead. Although fiscal relaxation in Japan would not achieve a

major reduction in its trade and current account surpluses directly, it would act to strengthen the yen and thereby induce substantial narrowing of the surpluses indirectly. Germany's objectives for structural adjustment are unlikely to be fully or speedily realized without fiscal stimulus to engender an expansionary environment. Moreover, German stimulus is sorely needed for the sake of Europe's wider economic well-being. Assured of increased German demand for their exports, the British, French, and Italian authorities would have less need for worry about their current account positions; they would have greater freedom to tackle structural reforms amid faster economic growth and, almost surely, would meet greater success.

Unless industrial countries espouse more consistent and positive fiscal policies, developing countries face a difficult future. Without stepped-up growth in Japan and Europe, LDC trade and current accounts would bear the brunt of reductions in the U.S. trade deficit achieved through U.S. budgetary action. The financial squeeze on LDCs would intensify further. In 1985, disappointing industrial-country growth, plus ever-increasing protectionism, already have meant setbacks for LDC exporters. From the debtors' perspective, the only good news in the low-growth, low-inflation outlook is that real interest rates should moderate as inflationary expectations continue to recede; over the rest of the decade, the real 6-month Eurodollar rate could be cut in half relative to last year's 7%. However, that would be no great comfort to the debtors: LDC current accounts benefit twice as much by a one-percentage-point increase in the OECD growth rate as by a one-percentage-point decrease in nominal LIBOR.

The second Baker initiative, unveiled at the October IMF-World Bank meetings in Seoul, seeks to stimulate economic growth in LDCs by encouraging them to remove distortions and increase the role of the market in their economies, with increased financial support from both commercial banks and the multilateral institutions. The plan is well timed, sound in concept, and altogether constructive in objective. However, the plan will stand or fall by its implementation. Much of the banking community is reacting positively. The process already is well under way to marshal the $20 billion of net new lending the commercial banks are called on to provide as their contribution. The funds would go to 15 debtor countries, mostly in Latin America, over a three-year period, implying annual growth in bank exposure of barely 2.5%. That would not significantly erode the progress that the banks are achieving in bringing their LDC credits into better balance with their expanding capital resources.

The Baker initiative further called on the multilateral development institutions, principally the World Bank and the Inter-American Development Bank, to undertake a parallel $20 billion in net lending to the 15 countries in the same three-year period. That lending would be mostly in the form of quick-disbursing policy-based credits, requiring major reorientation of World Bank activity. Hitherto, the Bank has extended no more than 15% of its total credits in such form with the remainder reserved for its traditional, slow-moving project finance. The Baker proposal assigns the World Bank a central role in catalyzing additional private financing and debtor-country structural reform during this second phase of the debt strategy, analogous to the IMF's central role in the first. Thus, World Bank reorientation is critical to the Baker plan's success and must be pushed ahead with all

possible speed.

Unquestionably, the most challenging aspect of the Baker plan is the call for structural reforms in the borrowing countries. Effective reforms would have a market-oriented thrust, including measures to boost domestic savings through realistic interest rate policies and steps to modernize and open financial markets; the paring back of inefficient public-sector undertakings; and the release of private enterprise from the distorting influence of subsidies and the burden of price, wage, trade, and exchange controls. Progress in these directions is exceedingly slow and difficult. Nonetheless, it remains critical to a positive outcome.

Although this second Baker initiative is fairly specific in its demands on the commercial banks, the multilateral development institutions, and the debtor countries, it is somewhat nebulous concerning the role of the G-5 creditor governments. The plan acknowledges the importance of a constructive external environment for the successful resolution of LDC debt problems. However, it is silent concerning the future role and scale of directly extended official credit flows. Such financing, provided mainly in the form of export credits, has met a significant portion of LDC credit needs in the past. Regrettably, some of the decisions of official credit agencies in recent years have been less than supportive of the general effort to resolve debt problems. This is one area in which amplification of the Baker plan is urgently needed.

Both Baker initiatives merit strong support. Although the G-5 initiative focuses on the industrial countries, while the Seoul proposal is geared to the needs of developing countries, the two initiatives complement and reinforce each other. Both industrial countries and LDCs need stronger economic growth — for their mutual benefit. LDC markets are of great importance to many exporters in the industrial countries; the latter therefore have a vital interest in restoring developing-country growth, even while recognizing that the necessary structural reforms cannot be implemented overnight. In the near term, the pressing urgency lies in securing greater consistency and a more expansionary thrust in industrial-country policies. Otherwise protectionism will run unchecked to the lasting detriment of world economic progress.

Statistical appendix

For key to data in tables see pages 22 and 23.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average = 100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
November	125.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	128.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	88.8	83.5	105.8	85.4	81.4	103.3	88.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	86.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.5	113.5	76.3	84.4	106.6	82.3	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June	130.5	93.2	113.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	126.1	93.5	113.1	75.4	85.2	107.1	83.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.6
August	124.0	92.8	113.6	75.4	86.3	108.7	85.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September	125.2	92.1	114.3	74.0	86.3	108.6	86.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October	118.0	91.2	123.0	71.6	87.3	109.8	89.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
September 27	121.0	92.0	117.4	74.1	87.0	109.5	88.6	92.3	104.6	89.8	105.0	73.4	113.0	95.3	95.4	82.9
October 4	118.8	91.2	123.0	73.7	87.3	109.8	89.0	89.6	105.1	90.0	105.4	73.1	113.7	95.9	95.6	82.9
11	119.1	91.3	125.4	72.5	87.3	109.8	89.1	89.6	105.1	90.0	105.5	73.1	113.3	96.1	95.7	83.0
18	119.3	91.3	123.2	72.1	87.6	109.7	89.1	89.8	105.1	90.1	105.2	73.2	113.1	96.0	95.2	83.2
25	116.0	90.4	123.0	71.7	87.5	109.7	89.1	90.4	105.1	90.1	105.2	73.1	113.4	96.1	95.0	83.2
November 1	118.6	91.2	122.1	71.7	87.4	109.8	89.2	90.3	105.1	90.1	105.4	72.9	113.4	96.1	94.9	83.3
8	117.5	90.6	126.4	67.8	87.5	109.9	89.3	89.5	105.1	90.4	105.5	72.8	113.1	96.3	94.8	83.4

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average = 100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.4	99.6	100.0	93.0	102.1	103.6	103.5	99.9	100.0	107.5	99.9	100.0	98.7	103.5	96.6	101.2
1981	106.8	100.0	104.6	102.7	100.1	97.3	98.7	102.0	99.1	100.3	97.6	95.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.6	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	100.1	96.6	100.0	96.4	99.3	100.1	92.2	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.9	96.5	101.1	89.3	102.7	90.0	100.6	85.2	99.4	96.5	100.1	96.9
1984																
November	122.6	100.4	96.3	106.5	97.8	95.2	101.2	88.8	102.5	91.8	98.6	96.9	98.7	96.0	98.3	98.3
December	123.9	101.1	95.1	106.6	98.0	94.5	101.4	85.4	102.3	91.4	98.0	97.8	98.0	96.1	98.0	98.7
1985																
January	125.9	101.7	94.2	105.4	97.7	95.0	102.8	83.2	102.3	91.7	97.7	98.6	96.4	97.8	97.4	99.4
February	129.7	100.9	93.8	97.4	97.0	94.5	101.7	83.6	102.3	91.4	96.9	98.5	95.0	96.3	98.0	100.2
March	129.6	98.1	94.1	90.2	97.6	94.1	99.8	86.6	101.8	91.7	96.8	98.0	95.5	97.4	98.3	99.6
April	125.7	98.3	93.0	84.9	98.5	94.8	98.8	91.2	102.4	91.4	97.1	98.9	96.3	98.3	98.5	98.1
May	126.1	97.2	92.9	86.4	98.2	94.4	98.4	92.4	102.0	90.4	97.0	97.6	95.4	97.6	99.3	98.0
June	124.7	97.6	93.3	85.6	98.7	94.3	99.5	94.0	102.3	90.8	97.4	98.0	95.9	97.3	99.1	97.6
July	120.6	97.7	93.6	86.9	100.3	94.7	97.6	97.8	102.9	90.0	98.2	97.1	97.8	96.6	99.0	97.4
August	119.1	96.3	94.1	86.3	102.1	96.0	96.1	95.6	103.7	89.4	98.9	96.0	98.3	97.4	98.1	97.0
September	118.0	97.6	95.5	89.6	102.3	95.8	96.2	96.1	103.5	89.0	100.0	96.8	97.2	97.8	99.3	97.0
October	113.1	96.9	102.4	87.9	103.9	96.7	96.3	94.0	104.1	89.0	101.0	95.7	100.0	98.8	98.8	96.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.2	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	93.1	100.2
1981	107.7	103.2	108.1	109.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.2	104.4
1982	75.9	112.0	96.7	104.5	85.9	103.6	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.7	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.4	92.8
1984	79.9	85.3	89.8	99.3	91.5	105.8	85.6	102.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1984																
October	80.0	89.9	89.5	98.4	96.3	107.9	87.5	105.3	97.8	97.3	121.1	112.4	96.1	98.2	122.0	94.5
November	73.7	88.4	88.1	97.4	95.8	104.8	87.8	104.7	96.5	96.3	119.7	109.0	95.0	96.6	121.9	95.4
December	76.1	91.1	86.9	96.7	90.1	101.5	89.0	107.1	96.7	96.8	121.3	111.9	95.5	97.4	114.1	95.5
1985																
January	75.9	94.1	88.1	99.0	97.8	98.4	90.3	108.8	100.0	97.0	120.5	118.4	95.7	98.3	109.4	98.0
February	77.1	93.3	85.5	99.7	102.2	96.5	94.4	111.5	101.2	97.9	119.4	123.5	95.7	99.5	119.4	102.3
March	76.6	95.7	82.8	98.6	105.8	98.2	94.4	112.1	99.0	96.2	118.1	123.4	95.7	98.6	115.9	101.5
April	76.2	89.3	81.8	97.3	98.5	91.1	92.4	108.7	96.7	92.1	116.0	116.7	94.4	96.1	112.5	96.3
May	76.7	84.2	83.6	98.1	97.0	91.3	93.7	108.9	98.2	91.1	119.0	117.4	93.2	95.2	104.6	94.2
June	75.7	81.0	84.9	96.8	97.4	91.1	96.0	108.1	96.1	90.0	118.6	117.0	91.3	94.6	105.3	90.1
July	69.0	78.9	90.8	93.1	93.0	89.3	97.9	106.0	95.1	87.7	115.9	113.2	87.7	91.9	99.2	86.6
August	67.3	80.6	94.2	90.1	87.0	84.3	101.6	103.8	93.4	85.9	114.2	111.8	86.1	90.4	98.4	85.2
September	67.9	81.5	92.7	79.7	82.9	87.0	103.8	103.4	93.6	86.1	114.6	121.2	85.7	91.0	102.2	86.4

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984				1985	
				Mar	Jun	Sep	Dec	Mar	Jun
Gross claims									
Eurocurrencies, on residents and nonresidents	1 929	2 146	2 253	2 339	2 330	2 322	2 352	2 461	2 446
On nonbanks	457	604	585	635	679	676	684	708	719
On banks	1 472	1 542	1 668	1 664	1 651	1 646	1 668	1 753	1 727
In dollars	1 454	1 634	1 797	1 841	1 850	1 857	1 887	1 947	1 911
In other currencies	475	512	456	498	480	469	465	514	535
Domestic currencies, on nonresidents	365	398	398	400	406	393	397	402	416
On nonbanks	128	136	136	136	140	136	137	140	143
On banks	237	262	262	264	266	257	260	262	273
In dollars	188	211	218	206	218	208	210	201	204
In other currencies	177	187	181	194	188	185	187	201	212
Total	2 294	2 544	2 651	2 739	2 736	2 715	2 749	2 863	2 862
On nonbanks	585	740	721	771	819	812	821	848	862
On banks	1 709	1 804	1 930	1 968	1 917	1 903	1 928	2 015	2 000
In dollars	1 642	1 845	2 014	2 047	2 068	2 065	2 097	2 148	2 115
In other currencies	652	699	637	692	668	650	652	715	747
Gross liabilities									
Eurocurrencies, to residents and nonresidents	1 954	2 168	2 278	2 362	2 360	2 349	2 383	2 481	2 467
To nonbanks	472	538	479	503	503	492	500	508	508
To official monetary institutions	112	93	98	86	86	84	86	98	106
To other banks	1 370	1 537	1 701	1 777	1 769	1 765	1 797	1 877	1 853
In dollars	1 539	1 741	1 836	1 882	1 905	1 912	1 949	2 001	1 964
In other currencies	415	427	442	480	455	437	434	480	503
Domestic currencies, to nonresidents	263	250	258	262	277	274	277	289	306
To nonbanks	74	78	71	71	71	72	77	78	86
To banks	189	188	187	191	206	202	200	211	220
In dollars	126	116	141	128	140	140	143	143	150
In other currencies	137	134	129	134	137	134	134	146	156
Total	2 217	2 418	2 536	2 624	2 637	2 623	2 660	2 770	2 773
To nonbanks	546	616	550	574	574	564	577	586	594
To banks and official institutions	1 771	1 916	1 986	2 050	2 063	2 059	2 083	2 184	2 179
In dollars	1 665	1 857	1 977	2 010	2 045	2 052	2 092	2 144	2 114
In other currencies	552	561	559	614	592	571	568	626	659
Net market size	1 155	1 285	1 377	1 395	1 417	1 407	1 415	1 442	1 464

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-Sep	
				Jul	Aug	Sep	1985	1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**12 399**	**22 108**	**15 311**	**155 571**	**134 747**
Australia	7 213	5 737	5 816	760	1 319	862	7 410	3 703
Austria	2 068	1 290	2 254	81	245	210	1 930	1 857
Belgium	1 528	2 168	1 647	58	208	121	2 084	1 366
Canada	15 856	8 571	13 124	1 630	1 718	236	13 427	8 201
Denmark	2 725	3 931	4 825	106	341	267	2 808	4 241
Finland	1 446	1 271	1 713	37	76	115	1 176	1 279
France	14 813	8 626	11 298	1 581	4 690	700	14 705	8 823
Germany	1 101	3 197	2 165	411	390	154	2 051	1 546
Greece	809	1 291	1 551	—	180	101	1 588	1 047
Ireland	1 136	1 869	1 377	—	—	338	1 247	991
Italy	6 687	2 876	6 933	556	—	761	8 481	3 568
Japan	8 397	14 428	17 526	1 535	1 850	1 444	16 189	14 846
Netherlands	1 000	1 213	1 973	216	294	273	1 781	1 637
New Zealand	4 786	602	3 208	284	263	—	1 703	1 716
Norway	2 601	1 969	1 324	935	307	284	3 027	950
Portugal	1 684	1 030	1 796	41	248	182	1 592	1 612
South Africa	1 889	1 300	1 422	85	—	—	825	1 174
Spain	2 675	4 977	4 931	458	46	249	3 398	3 634
Sweden	3 181	7 144	11 256	122	1 977	241	8 380	9 602
United Kingdom	2 836	2 726	8 899	513	2 486	4 046	17 197	6 120
United States	21 109	20 276	65 054	3 207	6 247	2 421	40 705	51 881
*Other**	3 233	3 950	6 765	390	28	2 217	3 867	4 953
Developing countries	**49 023**	**38 256**	**39 725**	**3 867**	**5 557**	**2 405**	**24 075**	**29 057**
Latin American countries	**29 667**	**15 592**	**17 464**	**288**	**4 048**	**148**	**5 737**	**12 781**
Argentina	1 565	1 750	4 210	—	3 700	—	3 700	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 586
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	52	—	—	52	589
Mexico	9 968	5 138	3 918	—	—	—	—	3 918
Venezuela	1 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	236	348	140	1 985	892
Asian countries	**11 723**	**12 978**	**15 893**	**3 085**	**1 489**	**2 215**	**14 587**	**11 514**
India	555	968	943	112	41	21	476	501
Indonesia	1 822	2 763	1 924	97	—	—	451	1 873
Korea	3 277	4 387	6 201	714	581	499	4 673	4 796
Malaysia	2 672	2 197	2 605	—	850	—	1 703	1 743
Philippines	888	878	925	—	—	—	925	—
Thailand	414	747	1 231	50	21	314	1 101	905
Other	1 895	1 438	2 072	2 576	196	1 382	5 258	1 696
Middle Eastern and African countries	**7 633**	**9 886**	**6 368**	**495**	**20**	**50**	**3 750**	**4 762**
Algeria	88	1 993	821	—	—	—	1 306	200
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	—	20	—	824	716
Other	5 201	4 244	3 821	495	—	50	1 827	2 861
Eastern European countries	**1 479**	**1 294**	**3 244**	**1 125**	**598**	**52**	**4 084**	**2 495**
Hungary	340	741	1 386	125	298	52	1 148	1 265
Soviet Union	1 131	93	1 061	1 000	300	—	1 191	904
*Other****	8	460	797	968	100	—	1 744	326
International organizations****	**11 353**	**16 201**	**13 287**	**2 259**	**1 434**	**1 751**	**15 698**	**8 502**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**11 524**	**13 493**	**13 213**	**121 147**	**74 872**
Eurobonds	51 645	48 501	79 458	7 803	11 745	10 647	99 741	53 862
U.S. dollar	43 959	38 428	60 593	4 540	7 127	7 715	73 382	43 732
German mark	2 586	3 817	4 604	263	376	656	4 998	3 214
British pound	748	1 847	3 897	256	329	824	3 606	2 552
Japanese yen	374	212	1 212	440	1 920	137	4 353	409
European composite units	1 980	2 818	3 032	747	497	746	5 278	2 048
Other	1 998	2 078	3 020	1 577	1 496	589	7 925	1 907
Foreign bonds	26 397	27 828	27 953	3 721	1 748	2 566	21 406	21 010
U.S. dollar	5 946	4 545	5 487	1 140	—	145	3 441	3 787
German mark	2 952	2 671	2 243	292	180	121	1 373	1 409
British pound	1 214	811	1 209	142	140	101	674	1 019
Swiss franc	11 432	14 299	12 626	1 238	869	1 035	9 140	10 554
Japanese yen	3 418	3 772	4 628	836	376	870	5 050	3 061
Other	1 435	1 730	1 677	273	184	295	1 729	1 180
International bank credits	**92 585**	**82 074**	**125 922**	**8 125**	**16 205**	**6 306**	**78 280**	**99 929**
Eurocurrency credits	85 015	74 222	112 605	7 888	15 572	5 575	73 414	88 308
Foreign credits	7 570	7 852	13 317	237	633	731	4 866	11 621
Total	**170 627**	**158 403**	**233 333**	**19 649**	**29 698**	**19 519**	**199 427**	**174 801**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
Eurodollar										
overnight	9.25	9.50	8.63	8.31	7.50	8.00	8.50	7.56	8.38	7.88
one month	9.13	9.69	8.38	8.38	7.56	7.63	7.94	7.94	7.94	7.88
three months	9.19	9.81	8.63	8.63	7.63	7.75	8.19	8.00	8.06	7.94
six months	9.50	10.00	9.13	9.00	7.88	7.88	8.44	8.13	8.31	8.00
twelve months	9.63	10.38	9.81	9.75	8.38	8.25	8.88	8.56	8.56	8.25
Euro-Canadian dollar										
one month	10.00	9.13	9.63	9.50	9.50	9.00	8.69	8.75	8.38	8.31
three months	10.00	9.50	10.81	9.81	9.50	9.38	8.94	8.94	8.69	8.38
six months	10.13	9.75	10.06	10.38	9.63	9.50	9.31	9.19	9.06	8.56
twelve months	10.25	10.00	10.44	10.75	9.94	9.63	9.50	9.50	9.38	8.94
Euro-French franc										
one month	22.00	12.12	10.69	10.31	10.13	10.50	14.00	9.63	9.63	9.19
three months	24.00	12.19	10.69	10.44	10.25	10.63	14.00	10.63	10.50	9.63
six months	22.00	12.31	11.00	10.75	10.38	10.75	13.75	11.50	10.88	10.63
twelve months	19.75	12.63	11.38	10.94	10.63	11.25	13.50	11.75	11.25	10.88
Euromark										
one month	5.88	5.25	5.50	6.13	5.50	5.44	4.88	4.50	4.44	4.69
three months	5.88	5.38	5.50	6.81	5.50	5.44	4.81	4.50	4.50	4.63
six months	5.94	5.13	5.56	6.38	5.56	5.44	4.94	4.76	4.63	4.94
twelve months	6.00	5.38	5.56	6.06	5.56	5.63	5.00	4.94	4.75	5.06
Euro-Dutch guilder										
one month	5.13	5.81	5.69	6.94	7.00	6.13	6.06	6.75	5.69	6.13
three months	5.19	6.00	6.25	6.94	6.88	6.69	6.00	5.69	5.69	6.19
six months	5.38	6.25	6.31	6.94	6.88	6.69	6.00	5.69	5.69	6.19
twelve months	5.63	6.38	6.44	7.00	6.81	6.69	6.00	5.69	5.69	6.25
Euro-Swiss franc										
one month	2.81	3.38	4.44	5.50	5.13	5.13	4.38	4.44	4.19	3.88
three months	3.25	3.75	4.56	5.19	5.13	5.25	4.56	4.56	4.50	4.44
six months	3.44	3.94	4.63	5.25	5.06	5.19	4.63	4.69	4.63	4.50
twelve months	3.44	3.94	4.69	5.25	5.00	5.19	4.69	4.63	4.63	4.56
Eurosterling										
one month	10.56	9.13	9.56	12.25	12.63	12.56	11.69	11.88	11.63	11.56
three months	10.44	9.81	9.88	12.63	12.44	12.44	11.19	11.63	11.50	11.50
six months	10.31	9.63	10.00	12.44	12.56	12.06	11.00	11.13	11.19	11.44
twelve months	10.31	9.81	10.19	12.31	12.63	11.94	10.88	11.06	11.00	11.19
Euroyen										
one month	6.75	6.63	6.13	6.13	6.81	7.19	6.75	6.44	6.75	7.50
three months	6.75	6.81	6.19	6.25	6.75	7.19	6.81	6.38	6.38	7.75
six months	7.19	6.88	6.13	6.31	6.75	6.88	6.88	6.31	6.38	7.38
twelve months	6.81	6.94	6.13	6.31	6.81	6.94	6.94	6.31	6.38	7.06
European currency unit										
one month	12.44	9.81	9.25	9.38	9.81	9.38	8.50	8.69	8.31	8.31
three months	12.31	9.75	9.38	9.75	9.81	9.38	8.63	8.50	8.50	8.50
six months	12.00	9.44	9.63	9.63	9.69	9.38	8.63	8.75	8.75	8.81
twelve months	11.13	9.63	9.75	9.69	9.63	9.38	8.75	8.69	8.88	8.75

International bond yields

average yield of several actively traded high quality issues with 3 maturity of 7 10 12 years at or near end of month

	1982	1983	1984							
	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States companies										
Eurodollar	13.50	11.25	11.75	11.24	10.58	10.49	10.66	10.37	10.53	10.37
Euromark	7.94	6.50	7.38	7.11	6.06	6.81	6.74	6.87	6.74	7.13
Swiss franc	5.63	5.13	5.88	5.74	5.69	5.81	5.66	5.62	5.62	5.66
European governments										
Eurodollar	12.69	12.54	12.20	11.87	11.25	11.17	11.31	11.11	11.18	11.04
Euromark	6.12	7.09	7.61	7.44	7.31	7.38	7.17	6.93	6.96	7.23
Swiss franc	5.63	6.24	6.34	6.31	5.75	6.22	5.16	5.09	5.01	5.02
European currency unit	11.77	12.64	10.44	10.08	10.10	10.17	9.99	10.01	10.14	10.42

Central bank discount rates

at or near end of month

	1982	1983	1984	1985					Current	
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov 14 1985	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.50	7.50	May 17, 85
Canada	10.05	9.96	10.09	9.58	9.31	9.20	9.00	8.78	8.96	Nov 14, 85
Austria	4.75	3.75	4.50	4.50	4.50	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	9.25	9.50	10.00	9.50	9.00	8.75	Nov 14, 85
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.50	4.50	4.00	4.00	4.00	4.00	Aug 16, 85
Ireland	14.00	12.25	14.00	12.00	11.25	11.25	10.25	10.25	10.25	Sep 11, 85
Italy	16.00	17.00	16.50	15.50	15.50	15.50	15.50	15.50	15.00	Nov 8, 85
Netherlands	5.00	5.50	5.50	5.50	5.50	5.00	5.00	5.00	5.00	Aug 16, 85
Norway	8.00	8.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.50	25.00	25.00	25.00	23.00	23.00	23.00	23.00	Aug, 85
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	11.50	10.50	10.50	10.50	10.50	10.50	Jul 12, 85
Switzerland	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.00	12.00	11.81	11.31	11.31	11.31	11.31	Jul 26, 85
Japan	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	15.46	18.50	21.00	19.25	19.25	16.50	15.50	14.50	14.50	Oct 22, 85
Argentina*	11.56	15.10	16.13	8.50	8.06	8.06	8.06	8.06	n.a.	Oct, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.40	8.05	12.41	12.49	12.39	12.37	11.91	n.a.	n.a.	Sep, 85
Singapore	7.00	5.50	5.50	5.50	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	11.50	13.00	12.00	12.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	9.00	9.00	9.00	9.00	9.00	9.00	Oct 16, 85

Day-to-day money rates

monthly averages

	1982	1983	1984	1985							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	8.93	9.47	8.38	8.13	8.47	8.97	7.51	7.98	7.93	7.92	7.99
Canada	10.83	8.73	10.46	10.41	10.09	9.79	9.56	9.07	8.97	8.53	8.58
Austria	5.00	5.25	7.63	8.75	5.88	6.13	6.13	6.13	5.38	4.65	5.50
Belgium	8.29	7.58	9.13	9.75	8.45	8.63	8.50	6.97	6.60	7.01	8.23
Finland	11.50	10.70	10.67	14.36	13.94	13.60	13.77	12.60	13.43	13.11	12.76
France	12.99	12.27	11.88	12.61	10.48	12.11	10.23	9.58	9.65	9.57	9.34
Germany	6.19	5.51	5.63	5.83	5.75	5.67	5.52	5.13	4.77	4.59	4.54
Ireland	14.14	12.19	13.50	13.81	13.81	12.63	12.00	11.50	10.25	9.50	9.38
Italy	19.00	17.88	17.25	16.88	17.77	15.46	15.25	15.00	14.53	n.a.	n.a.
Netherlands	5.31	5.94	5.94	6.81	6.14	7.19	6.81	6.63	5.82	5.74	5.87
Norway	11.06	12.06	12.50	17.60	14.44	12.75	11.19	13.80	12.75	12.00	12.25
Spain	15.81	16.73	12.13	13.69	17.63	12.56	13.03	12.88	12.88	10.66	8.99
Sweden	9.31	11.92	11.69	13.00	13.44	14.69	16.06	16.03	15.00	15.00	14.81
Switzerland	5.25	4.88	4.88	2.50	2.00	2.25	2.00	2.00	2.50	2.00	1.25
United Kingdom	9.75	9.19	9.31	10.69	12.38	11.25	10.17	13.45	11.25	9.59	9.66
Australia	13.04	9.58	10.33	13.38	13.19	11.43	15.27	19.10	n.a.	n.a.	n.a.
Japan	6.99	6.44	6.41	5.42	6.37	6.00	6.13	6.17	6.17	6.41	6.56
South Africa	14.15	16.06	21.75	21.50	21.38	19.81	18.63	17.50	16.25	15.20	14.90
Argentina*	12.77	14.69	17.75	26.35	23.71	32.06	4.52	5.00	5.00	5.00	5.40
Brazil*	150.42	164.69	212.20	247.19	348.03	302.71	238.4	214.19	194.90	230.30	237.20
Hong Kong	9.13	13.40	9.56	8.13	7.21	5.88	5.35	4.89	5.14	4.71	4.38
Korea	14.84	11.40	10.06	9.72	9.40	9.50	9.30	9.50	9.70	9.40	9.60
Philippines	16.42	31.13	16.22	27.80	23.87	26.17	26.09	20.20	19.29	10.25	n.a.
Singapore	11.46	7.38	6.01	5.00	4.85	5.25	5.19	4.94	4.37	5.14	5.79
Taiwan	9.94	7.81	8.21	8.70	8.40	8.56	8.47	8.79	8.33	6.81	5.38

*Percent per month.

Treasury bill rates

Bond equivalent yields, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	May	Aug	May	Jun	Jul	Aug	Sep	Oct
United States	8.71	9.28	7.99	5.42	6.58	7.83	7.05	7.40	7.36	7.13	7.44
Canada	9.90	8.72	9.84	10.48	8.77	9.51	9.33	9.06	8.55	8.75	8.53
Belgium	11.50	10.00	10.50	10.50	9.63	9.13	9.02	9.63	9.03	9.26	8.92
Ireland	17.25	15.00	11.10	12.77	13.43	12.31	11.29	10.38	10.43	9.89	10.14
Italy	19.13	17.46	14.99	15.29	14.31	14.22	14.13	14.08	13.99	13.62	n.a.
Netherlands	7.91	7.91	7.88	6.75	6.29	6.75	6.75	6.25	5.75	5.75	6.19
Spain	13.25	14.46	n.a.	10.40	11.96	10.40	12.27	n.a.	n.a.	n.a.	n.a.
Sweden	12.50	10.75	11.00	14.03	16.97	16.43	16.64	15.04	15.00	15.33	14.37
United Kingdom	11.94	10.38	10.38	12.19	12.06	12.56	12.31	11.50	11.31	11.38	11.45
Australia	8.00	9.50	13.25	14.62	14.75	14.75	13.75	14.70	16.17	n.a.	16.36
Japan*	5.40	5.50	6.01	5.97	5.91	5.91	4.91	4.91	4.91	4.91	4.91
New Zealand	17.50	n.a.	13.00	19.00	21.00	21.00	21.00	24.00	n.a.	n.a.	n.a.
South Africa	14.50	10.00	20.34	22.00	21.00	19.72	18.00	16.68	15.72	15.22	13.87
Brazil	310.00	2000.00	215.00	215.00	215.00	215.13	228.63	223.13	226.13	266.63	231.15
Mexico	71.00	71.00	69.00	70.00	70.00	69.34	67.47	74.97	73.56	n.a.	66.24
Hong Kong	14.00	10.00	12.13	9.38	14.00	21.00	21.00	21.00	21.00	18.01	n.a.
Singapore	3.00	3.00	3.00	2.97	3.00	3.00	3.00	3.00	3.00	2.97	2.92

Representative money market rates

Short-term interest rates on loans to prime borrowers

	1982	1983	1984	1985							
	Dec	Dec	Dec	May	Aug	May	Jun	Jul	Aug	Sep	Oct
United States	9.00	9.00	9.13	8.50	8.50	8.50	7.75	7.50	7.50	7.50	8.07
Canada	9.75	9.67	11.00	10.75	9.25	9.50	9.75	9.25	9.75	8.95	8.70
Belgium	12.50	10.50	10.50	10.50	10.75	9.63	9.50	9.50	9.50	9.25	8.85
France	13.50	10.00	10.00	10.00	9.50	10.00	10.25	10.00	9.75	9.44	9.25
Germany	8.50	5.50	5.75	5.50	5.00	5.50	5.50	5.00	4.50	4.45	4.95
Ireland	16.75	15.00	11.00	13.00	13.00	12.13	11.63	10.50	10.38	10.25	10.25
Italy	19.00	17.50	15.00	15.50	15.00	14.50	14.75	14.25	14.25	13.38	14.62
Netherlands	8.50	8.50	8.50	7.00	7.00	6.94	6.94	6.13	5.75	5.81	6.25
Portugal	19.00	24.00	24.00	24.00	24.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	16.00	16.00	12.00	14.00	12.00	13.00	13.94	n.a.	n.a.	n.a.	n.a.
Switzerland	5.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00	4.63	4.44	4.69
United Kingdom	10.50	9.00	9.88	11.88	12.00	12.50	12.50	11.13	11.00	11.00	11.50
Australia	8.00	9.50	13.00	13.00	13.00	13.00	13.00	13.00	n.a.	n.a.	n.a.
Japan	5.50	5.50	6.00	5.84	5.84	5.84	4.84	4.84	4.84	4.84	7.11
New Zealand	18.00	15.00	13.00	21.00	21.00	21.00	21.00	24.00	n.a.	n.a.	n.a.
South Africa	14.00	9.50	20.00	22.00	22.00	19.00	17.50	17.50	16.50	15.25	14.00
Chile	20.00	20.00	30.00	30.00	30.00	33.00	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	9.13	10.63	9.25	9.38	11.25	7.00	7.00	8.11	9.81	8.37	5.26
Indonesia	17.00	15.50	12.00	16.00	16.00	16.00	17.00	15.00	15.00	15.00	14.50
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.00	8.00	8.00	10.00	10.00	10.00	7.00	7.00	6.50	7.50	7.25
Philippines	17.00	13.00	17.00	24.00	20.00	20.00	24.00	20.00	20.00	16.56	n.a.
Singapore	6.00	6.00	5.00	5.00	5.00	5.00	5.00	5.13	4.56	6.38	5.81
Thailand	12.00	12.00	12.00	12.00	12.00	13.50	13.50	12.00	12.00	12.00	13.50

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	8.25	9.70	8.00	8.80	8.95	7.50	7.57	7.95	7.88	7.80	7.80
Canada	9.81	9.82	10.05	10.50	10.18	9.75	9.65	9.20	9.10	8.90	8.65
Austria	6.25	6.50	7.50	6.88	6.88	6.50	6.50	6.38	5.75	5.25	5.63
Belgium	12.25	11.25	10.63	10.25	9.50	9.00	8.75	9.50	9.31	9.13	8.75
Denmark	5.00	6.00	6.00	6.00	6.00	6.00	6.00	5.00	5.00	7.00	7.00
Finland	4.75	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
France	9.24	7.66	7.04	6.90	6.92	6.67	6.69	n.a.	6.49	n.a.	6.27
Germany	6.06	5.90	5.25	5.70	5.45	5.30	5.15	4.45	4.25	4.25	4.55
Ireland	15.25	11.75	14.40	13.55	12.00	11.75	11.25	10.00	10.00	9.50	9.88
Italy	19.25	13.25	11.84	10.96	10.88	10.88	10.86	10.85	10.86	n.a.	n.a.
Netherlands	5.38	6.13	5.50	6.81	7.00	6.81	6.63	6.00	5.69	5.69	6.19
Norway	13.50	12.75	12.75	12.75	12.75	12.40	12.25	12.25	12.00	12.00	12.00
Portugal	19.00	21.00	27.00	27.00	27.00	27.00	27.00	27.00	24.50	24.50	24.50
Spain	12.41	12.62	11.64	10.80	10.61	10.63	10.55	n.a.	10.49	10.42	n.a.
Sweden	12.93	11.70	11.45	11.79	13.77	16.13	16.57	14.95	14.61	13.90	14.06
Switzerland	5.00	4.50	4.75	5.25	4.75	4.88	5.13	4.63	4.38	4.25	4.50
United Kingdom	15.31	9.31	9.88	11.00	12.13	12.38	12.31	11.06	11.31	11.25	11.44
Australia	12.25	12.63	13.25	14.88	13.63	14.63	15.40	14.85	n.a.	n.a.	n.a.
Japan	7.00	4.50	4.34	4.58	4.38	6.00	6.30	6.35	6.41	6.43	7.32
New Zealand	18.00	11.50	15.25	21.00	23.00	23.50	23.50	24.50	n.a.	n.a.	n.a.
South Africa	15.25	20.50	22.63	23.63	22.25	20.25	18.50	18.50	17.25	16.50	15.00
Argentina*	8.48	13.63	21.25	25.49	23.59	32.33	7.00	7.00	7.00	5.30	4.80
Brazil	23.00	23.00	23.00	25.00	25.00	25.00	24.00	23.00	21.00	19.00	16.00
Chile	47.79	30.00	28.13	30.00	28.61	32.83	28.91	29.26	n.a.	15.08	n.a.
Hong Kong	7.50	8.00	5.00	5.00	5.00	4.90	3.50	3.00	3.25	3.25	3.25
Korea	7.00	8.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.40	8.75	8.00	8.00	8.42	8.61	8.17	8.17	8.17	8.17	7.00
Mexico	50.34	67.49	47.40	47.83	54.00	63.00	68.50	64.33	65.20	65.80	66.80
Philippines	14.13	14.96	11.07	20.13	23.44	21.40	25.85	16.60	17.35	14.26	n.a.
Singapore	6.25	7.44	6.13	5.82	5.00	4.84	5.07	4.88	4.51	6.36	5.81
Taiwan	7.56	7.56	6.19	6.44	6.25	6.25	6.56	6.00	6.00	5.75	5.75
Thailand	10.25	10.00	10.00	10.50	10.50	11.00	11.00	10.50	10.00	9.50	10.50
Venezuela	13.50	12.00	12.50	11.50	11.25	10.00	10.00	10.00	10.00	10.00	10.00

*Percent per month

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	10.51	12.00	11.83	11.58	11.43	11.11	10.82	10.91	10.83	10.67	10.62
Canada	11.68	12.00	11.69	11.53	11.32	10.99	10.88	10.91	10.79	10.91	10.72
Austria	6.91	8.00	8.14	8.00	8.06	8.01	7.81	7.77	7.56	7.34	7.38
Belgium	12.66	11.89	11.00	11.50	11.40	11.18	10.94	10.90	10.59	10.42	10.15
Denmark	20.54	12.96	14.80	13.13	12.87	12.29	12.16	10.70	10.72	11.23	10.79
Finland	12.64	11.00	10.70	11.00	11.03	10.45	10.46	10.46	10.42	10.35	10.36
France	15.40	13.96	12.76	12.27	11.98	11.72	12.12	11.87	11.06	11.87	10.73
Germany	7.96	8.38	7.47	7.44	7.46	7.10	7.22	6.68	6.52	6.53	6.90
Ireland	14.63	14.20	14.40	13.93	13.09	13.17	12.71	11.20	11.74	11.92	11.84
Italy	14.92	13.06	14.53	13.44	13.53	13.60	13.67	14.08	14.04	13.73	n.a.
Netherlands	8.36	8.52	7.52	8.09	7.73	7.58	7.39	7.23	6.82	6.97	7.03
Norway	13.57	12.68	12.90	13.38	13.38	12.38	12.70	12.70	12.70	12.70	12.70
Portugal	19.83	22.51	22.23	20.21	20.84	21.80	22.23	22.44	n.a.	n.a.	n.a.
Spain	15.92	17.20	13.83	13.49	13.41	13.58	13.79	14.48	14.31	13.82	12.58
Sweden	13.07	12.20	12.04	12.63	11.42	11.10	13.48	12.98	13.22	13.54	13.40
Switzerland	4.23	4.53	4.60	4.84	4.75	4.74	4.79	4.60	4.64	4.71	4.56
United Kingdom	10.82	9.84	10.23	10.34	10.42	10.51	10.45	10.16	10.02	10.15	10.16
Australia	13.05	13.65	13.40	13.65	14.05	13.70	13.50	13.68	13.95	n.a.	n.a.
Japan	7.86	7.45	6.36	6.67	6.85	6.60	6.53	6.38	6.40	6.36	6.55
New Zealand	12.84	15.52	16.86	17.52	17.95	19.64	17.33	17.86	17.70	n.a.	n.a.
South Africa	11.31	13.64	16.33	16.85	16.40	15.85	15.15	15.90	16.20	16.65	17.50
Philippines	13.84	14.47	13.54	13.69	12.75	n.a.	13.90	13.29	n.a.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	13.00	12.50	12.50	12.50	12.00	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985							
	Dec.	Dec.	Dec.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.
United States	11.50	11.00	10.79	10.50	10.50	10.00	9.50	9.50	9.50	9.50	9.50
Canada	14.50	11.00	11.25	11.25	10.75	10.50	10.50	10.50	10.25	10.25	10.00
Austria	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.00
Belgium	15.50	13.75	14.00	14.00	13.75	13.50	12.00	13.00	12.50	12.00	11.50
Denmark	14.00	15.00	10.50	11.00	10.50	10.50	10.50	9.50	9.50	8.50	8.50
Finland	8.50	10.50	10.50	11.00	10.50	10.50	10.37	10.40	10.42	10.42	n.a.
France	12.25	13.25	13.50	11.50	11.50	11.25	11.25	10.85	10.85	10.85	10.85
Germany	8.50	8.75	8.50	8.50	8.75	7.75	7.75	7.75	7.25	7.25	7.25
Ireland	16.50	14.25	14.50	14.75	14.50	14.50	14.00	13.25	13.50	12.50	12.50
Italy	20.71	18.71	18.00	17.00	17.00	17.00	17.00	17.00	16.00	16.00	16.00
Netherlands	8.25	7.00	6.63	7.00	7.13	7.75	7.75	7.25	8.25	6.25	6.38
Norway	14.50	13.50	13.50	12.50	13.50	12.50	12.75	12.50	13.13	12.75	12.50
Portugal	23.50	20.00	23.00	23.00	23.50	24.75	25.00	25.00	26.00	26.00	26.00
Spain	16.50	15.50	13.88	13.50	13.75	13.75	14.50	n.a.	n.a.	n.a.	14.58
Sweden	14.00	13.50	13.50	14.50	14.13	15.25	16.25	16.25	15.25	15.25	14.75
Switzerland	6.00	5.50	5.00	5.25	5.50	6.25	6.00	6.00	6.00	6.00	6.00
United Kingdom	12.00	10.00	9.50	11.50	11.50	12.50	12.50	11.50	11.50	11.50	11.50
Australia	13.00	11.00	13.00	16.00	16.00	18.75	17.75	17.50	17.75	18.25	n.a.
Japan	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.70
New Zealand	21.00	21.00	19.00	17.00	17.00	25.00	25.00	24.50	n.a.	n.a.	n.a.
South Africa	21.00	20.00	21.00	24.00	24.00	24.00	22.00	21.00	21.00	19.00	17.50
Argentina*	3.00	1.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	5.60
Brazil	23.81	23.81	23.81	23.81	23.81	23.81	23.81	23.81	23.81	23.81	19.00
Chile	19.71	20.00	20.00	20.00	20.00	20.00	47.28	51.47	n.a.	25.00	32.36
Hong Kong	8.00	10.00	11.00	8.00	8.00	8.00	8.00	7.00	7.00	7.00	7.00
Indonesia	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	10.50
Mexico	45.00	50.00	62.00	62.00	62.00	62.00	54.00	59.00	59.00	62.00	62.29
Philippines	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	n.a.	n.a.
Singapore	8.50	9.00	9.00	8.00	8.00	8.00	8.00	8.00	7.25	7.25	7.23
Taiwan	9.00	9.00	9.00	10.00	10.00	10.00	10.00	10.00	10.00	9.75	9.75
Thailand	16.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Venezuela	17.00	16.00	15.00	15.00	15.00	14.00	14.00	14.00	14.00	14.00	14.00

*Percent per month

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							
	Dec.	Dec.	Dec.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.
United States	13.71	12.53	12.23	11.70	11.70	11.37	11.50	11.63	11.38	11.50	11.25
Canada	13.14	12.56	12.66	12.36	12.24	11.94	11.97	11.92	11.43	11.56	11.26
France	14.50	14.31	13.94	13.14	13.41	12.27	12.19	12.08	12.11	12.28	12.03
Germany	8.22	8.30	7.98	7.68	7.96	7.80	7.71	7.73	6.96	6.86	n.a.
Netherlands	7.96	8.07	7.91	8.08	7.96	7.82	7.41	6.98	7.28	n.a.	n.a.
Norway	14.13	13.25	13.13	13.13	13.25	13.25	13.50	13.50	13.50	13.50	13.50
Spain	17.13	15.94	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	13.97	12.21	12.13	13.31	12.75	13.50	13.13	13.25	13.63	13.63	14.00
Switzerland	5.80	4.92	5.09	5.24	5.24	5.18	5.06	5.09	5.09	5.02	4.98
United Kingdom	12.34	11.47	11.64	11.69	11.49	11.47	11.24	11.22	11.22	11.17	11.14
Japan	7.53	7.09	6.21	6.93	6.82	6.73	6.63	6.55	6.49	6.36	6.26
Korea	15.00	14.20	13.50	14.70	14.60	14.70	14.30	14.10	13.90	13.90	13.70
Venezuela	18.20	18.00	18.20	18.00	17.90	17.20	17.00	17.00	17.00	17.00	17.00

Key to data in tables

I. International markets

II. Domestic markets

Central Bank discount rates

Day-to-day money rates

Japan — 3-month "gen-saki" rate

Korea — 3-month financial bill

Malaysia — 3-month interbank deposits

Netherlands — 3-month interbank deposits

New Zealand — 90-day commercial bills

Singapore — weighted average interest rate for 90-day promissory notes

Portugal — average of 30- to 90-day interbank deposits

Switzerland — 3-month bank acceptances

United Arab Emirates — 180-day bank acceptances

U.S.S.R. — 3-month interbank deposits

Sweden — 3-month interbank deposits

Yugoslavia — interbank call money

United Kingdom — 3-month interbank deposits

United States — 3-month prime industrial paper

Commercial bank deposit rates

Argentina — nominal 30-day time deposits

Australia — average rates published by the Reserve Bank until August 1984. New series as of September 1984: 30-day acceptances

Austria — 3-month time deposits

Belgium — 3-month certificates of deposit

Brazil — effective minimum rate for 3-month time deposits in large amounts

Canada — 3-month certificates of deposit with interest yields until July 1982. New series as of August 1982: 6-month certificates of deposit with a variable interest rate, which is set every month in relation to inflation

Finland — 3-month time deposits

France — 30-day time deposits

Germany — time deposits of 3-months maturity

Greece — time deposits of six-month notice

Ireland — 3-month time deposits of £IR 10,000 and over

Italy — 3-month time deposits in large amounts

Hong Kong — 3-month certificates of deposit with the Hong Kong Association of Banks

Iceland — 3-month deposits

India — 3-month time deposits of Lit. 100 million or more

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Mortgage Security Trust Company

Korea — 1-month time deposits

Malaysia — 3-month time deposits

Mexico — 3-month certificates of deposit until September 1982. New series as of October 1982: 3-month promissory notes

Netherlands — 3-month time deposits in large amounts

New Zealand — 6-month transferable certificates of deposit

Norway — 3-month special term deposits

Philippines — Weighted average interest rates on 60- to 90-day time deposits of commercial banks

Portugal — 91- to 180-day time deposits until May 1982. New series as of June 1984: 180-day to one-year time deposits

Singapore — 3-month certificates of deposit

South Africa — 3-month negotiable certificates of deposit

Key to data in tables — continued

Spain — Deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit, issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic investors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 10-year government bonds.

Belgium — Belgian National Bank secondary market average yield on central government bonds of more than 5 years maturity quoted on Brussels Stock Exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 1997 until April 1983. New series as of May 1983: 10% serial bonds maturing 2004.

Finland — rate of interest at auction for government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public utility bonds with a remaining maturity of 10 years or more.

Germany — Finanzierungs Ausgleichs Zedula 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including convertible bonds, weighted by the amounts of securities for maturities of 9 years or more.

Japan — Average yield of actively traded government bonds with maturities of 10 years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three-year government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1965 until December 1982. New series as of January 1983, average yield of listed fully guaranteed bonds.

Philippines — weighted average interest rate of outright sales of securities by open-market operations for Central Bank certificates of indebtedness.

Portugal — yield of 3% Defense Loan of 1940.

South Africa — 25-year government bonds until August 1980, 20-year Republic of South Africa bonds until April 1984, new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 10-year government bonds until October 1983. New series as of November 1983, 5-year government bond, most actively market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — gradual rate applied to working capital loans until July 1982, monetary correction rate was applied to working capital loans from August 1982 to July 1983. New series as of August 1983, exchange adjustment applied on a gradual annual accrual basis, which is set every month in relation to variation. Charges for fixed and commercial risk rates added.

Canada — prime rate.

Chile — average rates (real) of six large commercial banks.

Colombia — approximate rate for loans and discounts to prime borrowers.

Finland — average rates on MIBOR (Helsinki Interbank Money).

France — base lending rate, excluding a commission of 0.6% per month on eligible loans, payable each month. A second tranche rate is often offered.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — maximum overdraft rate for prime borrowers.

Japan — Bank of Japan's discount rate for loans secured by city bonds. As of April 1983, the minimum rate has been raised.

Mexico — prime rate.

Netherlands — Amsterdam-Rotterdam Bank's basic lending rate.

Norway — rate for average cost of borrowing for banks' commercial clientele. As of January 1983, 8.4.

Philippines — maximum rate for loans for working capital and export financing.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, excluding a commission of 0.5% per quarter on the maximum amount used in January 1983. New series as of February 1983, special rate of 9.5% for export credit borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days or less, including charges until December 1982. New series as of January 1983, market rate for prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market gross average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bonds maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 7%-8.5% corporate bonds until December 1982. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a duration between one and eight years.

Norway — 5.75% Dalen Portland-Cement bond of 1968-1984 until December 1982. New series as of January 1983, average yield of seven industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Statistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding issues of four leading Swiss companies: Motor-Columbus as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stock with an average of 15 years to maturity.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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